

MODIFYING THE TCPA TO IMPROVE SERVICES TO STUDENT LOAN BORROWERS AND ENHANCE PERFORMANCE OF FEDERAL LOAN PORTFOLIOS

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July 2013

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Highlights

Background

The President's FY 2014 budget includes a proposal to modify the Telephone Consumer Protection Act to allow the Federal government and its agents to use automatic dialing systems when contacting wireless phones in the collection of debt owed to or guaranteed by the United States. The U.S. Departments of Education and Treasury support such an exemption. OMB scoring of the provision reflects only a modest increase in recoveries over a ten-year period. However, a more realistic picture emerges when considering the number of students and parents who will fail to receive critically needed services, which will result in avoidable defaults and increased borrowing costs, if agencies and their contractors are unable to use available technology.

Impact on Borrowers

Modifying the TCPA will help nearly 12 million student loan borrowers avoid the pitfalls of default.

Impact on Collections

Modifying the TCPA will **increase collections by \$41.3 billion and increase the number of borrowers serviced by 7.9 million** over the next 10 years.

Cost of Inaction

Failure to modify the TCPA will result in **\$26.5 billion less in defaulted loan recoveries** because servicers will be unable to contact borrowers. This will negatively affect the **credit status of 1.7 million defaulted student loan borrowers** over the next 10 years.

Consumer Protections

All **existing consumer protections** – including the Do Not Call Implementation Act & the Fair Debt Collection Practices Act – will **remain in place to safeguard consumers' rights and privacy**.

MAKING THE TCPA WORK FOR STUDENT LOAN BORROWERS

Independent Analysis Supports Limited Changes to the Telephone Consumer Protection Act (TCPA)

- In FY 14, **an estimated 1.3 million borrowers will default** on their student loans, in large part because their ***servicers are unable to use modern technology*** to contact them and provide counsel on the many available options to avoid default. This report shows that approximately 11.9 million borrowers could avoid the pitfalls of default over the next ten years if their servicers could use autodialing technology to reach them on their wireless devices.

- Unnecessary defaults impose ***significant costs to taxpayers***. Estimates suggest that defaulted loans cost as much as 25 cents for every dollar borrowed (Delisle, 2012).

- Enacted in 1991, the TCPA prohibits businesses from contacting student loan borrowers on mobile devices, without prior consent, when using an automatic telephone dialing system. Technological advances over the last 22 years are creating ***unintended consequences on those subject to the TCPA*** – student loan borrowers, the Federal government, and servicers.

- As the number of wireless households increases, and the corresponding ability to efficiently contact borrowers on their cell phones declines, ***recoveries of defaulted loans could drop by nearly \$26.5 billion*** over the next ten years.

- The most recent report from the Centers for Disease Control (National Health Interview – National Center for Health Statistics released June 2013) documents that ***54.1 percent of all American households now are exclusively or predominantly wireless***.

- 83 percent of student loan borrowers are between the ages of 18 and 49. 76 percent of individuals in this age group own cell phones, over half of which are in wireless-only households.

- Servicers acting on behalf of the Federal government are frequently unable to use automatic dialing systems to contact borrowers due to an FCC interpretation, which today ***treats Federal agencies and their contractors as if they were telephone sales agents***.

- Modifying the TCPA will allow the Federal government and its agents to use automatic dialing systems when contacting wireless phones in the servicing and collection of debt owed to or guaranteed by the United States. ***All existing consumer protections will remain in place to safeguard consumers' rights and privacy***. The U.S. Departments of Education and Treasury support this position.

- Approximately 27 percent of student loan borrowers in repayment are delinquent on their loans – the vast majority of which never speak to their student loan servicer. ***If contacting them were easier, most students could receive help entering Income Based Repayment (IBR) or Pay As You Earn (PAYE) plans***. However, it is impossible to timely contact all borrowers needing these important services without the appropriate use of technology.

- ***Student Impact*** – There are 5.9 million student loan borrowers currently in default status. Given that total student loan indebtedness has grown by 70 percent since 2008, this number is expected to increase without action and, conversely, could decrease significantly if the appropriate modifications are made to the TCPA.

MODIFYING THE TCPA TO IMPROVE SERVICES TO STUDENT LOAN BORROWERS AND ENHANCE PERFORMANCE OF FEDERAL AGENCY LOAN PORTFOLIOS

I. MODIFYING THE TCPA

On December 20, 1991, the United States Congress passed the Telephone Consumer Protection Act of 1991 (TCPA). Congress passed the TCPA to address a growing number of telephone marketing calls and certain telemarketing practices found to be an invasion of consumer privacy. However, it includes a provision that prohibits the use of automated telephone systems when calling wireless telephones. This provision targeted telemarketing calls at that time, but in the last decade, it has been applied to calls made by Federal agencies and their contractors and agents in the commission of their work – to service or collect loans from individuals who have borrowed from various Federal credit programs.

A. Current Law

Section 227 (b)(1) of the TCPA imposes restrictions on the use of automated telephone equipment, stating:

It shall be unlawful for any person within the United States – (A) to make any call (other than a call made for emergency purposes or made with the prior express consent of the called party) using any automatic telephone dialing system or an artificial or prerecorded voice—

(iii) to any telephone number assigned to a paging service, cellular telephone service, specialized mobile radio service, or other radio common carrier service, or any service for which the called party is charged for the call;¹

In 1991, when Congress enacted the TCPA, the wireless industry was nascent. Wireless phone service was expensive and few people had such service (refer to Graph 1). Consequently, the TCPA sought to protect consumers from costly, unwanted and inconvenient telemarketing sales calls. Today, over 315 million cellular phones are in use in the U.S. and the prohibition prevents borrowers from receiving critical services in a timely manner.

B. Proposed Change

The proposed change to the TCPA would clarify that Federal agencies and their contractors and agents may use automatic dialing systems and prerecorded voice messages, without the borrower's express prior consent, when contacting wireless phones to service debts owed to or guaranteed by the Federal government or where the Federal government has a financial interest.

The proposed change does not remove any other consumer protections already in place under the TCPA or other Federal laws for protection of privacy and confidentiality, nor does it remove any provisions protecting consumers from unethical debt collection practices.

¹ Refer to the Telephone Consumer Protection Act 47 U.S.C. as codified in § 227 of the Communications Act of 1934, as amended.

In this report, we have analyzed the ability of the Department of Education and its contractors and agents to contact student loan borrowers timely and efficiently to help borrowers remain in repayment and to access the various repayment plans to avoid default. This document also highlights the impact when student and parent borrowers do not receive the appropriate level of services – especially those who are most at risk of being delinquent or defaulting on their student loans.

C. Rationale

The Federal Communications Commission (FCC) rules and regulations relating to the TCPA state that a machine that has the *capacity* to dial telephone numbers “without human intervention” is an automatic telephone dialing system and therefore subject to restrictions in its use to contact cell phones.² By contrast, the predictive dialers common to the student loan servicing industry perform the work in conjunction with human callers, dialing not random or sequential numbers normally associated with auto-dialers, but numbers known (or thought) to be owned by current student loan customers. The ill-advised ban on the use of predictive dialers to contact student loan borrowers on their cell phones will prove to be extremely costly to borrowers and taxpayers alike, as demonstrated in this study.

As depicted in Graph 1, the number of cell phones has grown exponentially since the inception of the TCPA in 1991, with over 325 million in use today. Other data in this report will show that cell phone usage is highest among younger adults, including a vast majority of student loan borrowers (more than half of which are in wireless-only households). These individuals communicate almost exclusively using their wireless devices. Without the ability to use technology that enables servicers to timely contact a greater number of borrowers, these borrowers will not receive important information about the various repayment plans, loan forgiveness and other programs that will help them stay current on their loans, avoid default, and improve their credit ratings.

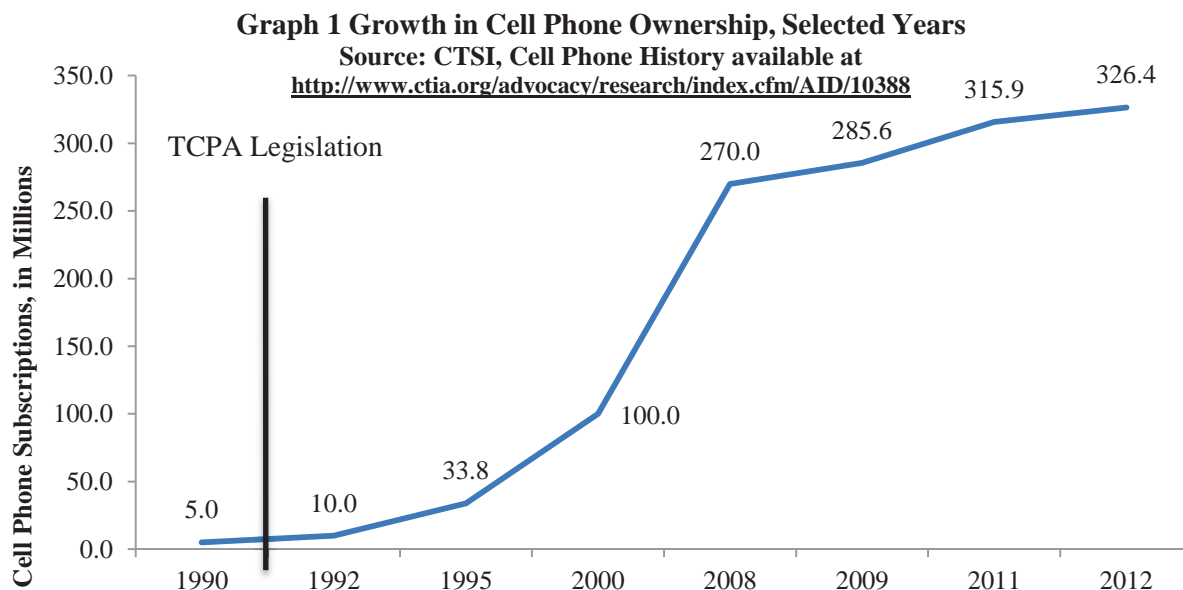
It is important to note that the vast majority of student loan defaulters never make their first payment and never talk to their loan servicer or guarantor. Conversely, when phone contact *can* be made with a delinquent student loan borrower, in nearly every case, a resolution results (over 95 percent of the time, according to U.S. Department of Education default prevention specialists). But efficient and timely contact is only possible with the use of predictive dialer technology. According to the U.S. Department of the Treasury’s Financial Management Service, “Without the use of such technology, we believe that we will see a significant drop in our collection rate.”³

Graph 1 depicts the explosive growth in wireless phone subscriptions over the past 22 years. At the time the Congress enacted the TCPA (1991), there were less than 10 million wireless phone

² Refer to *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991*, CG Docket No. 02-278, Report and Order, 18 FCC Rcd 14014 (2003) (*2003 TCPA Order*).

³ Refer to Appendix A for a copy of the letter written to the Federal Communications Commission by Scott H. Johnson, Assistant Commissioner of Debt Management Services, Financial Management Service, U.S. Department of the Treasury.

subscribers. Current estimates from the CTIA-The Wireless Association indicate that there were 326.4 million wireless subscribers in the United States in 2012.⁴



II. TECHNOLOGICAL CHANGE AND EMPIRICAL EVIDENCE

Because of the TPCPA prohibition on the use of predictive dialers, large subsets of students and parents will suffer unnecessary and unintended consequences. The following sections provide the demographic characteristics of cell phone users and student loan borrowers.

A. Cell Phone Statistics

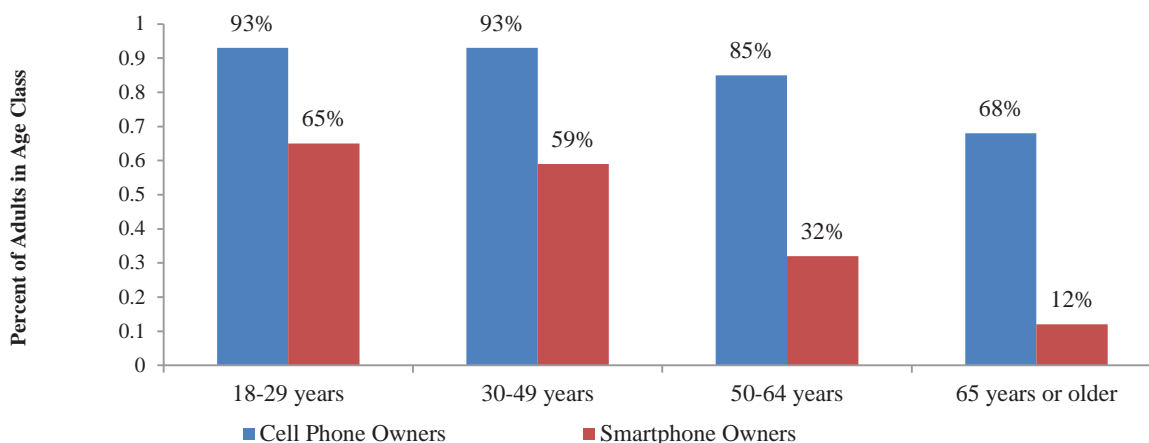
It is clear that cell phone use is replacing traditional landline phone service. The CDC reports that now more than 54.1 percent of U.S. households rely either exclusively or predominantly on wireless telephone service and 38.2 percent of all U.S. adults live in households with only wireless telephones (i.e. *no landline*).⁵ Industry data from servicers trying to contact student loan borrowers suggests that rate is even higher. Approximately 45 percent of all younger adults live in households with only wireless telephones.

⁴ Statistics are available online under history at <http://www.ctia.org/advocacy/research/index.cfm/AID/10388> at the CTIA website.

⁵ Refer to Blumberg, Stephen J., and Julian V. Luke, Gestur Davidson, Michael E. Davern, Tzy-Chyi Yu, Karen Soderberg, *Wireless Substitution: State-level Estimates From the National Health Interview Survey, January–December 2007*, National Health Statistics Report, Number 14, March 11, 2009 and Brenner, Joanna, *Pew Internet: Mobile*, Commentary: Mobile, Jan 31, 2013. Refer to the National Center for Health Statistics, Estimates From the National Health Interview Survey, July–December 2012, available online at <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201306.pdf>.

**Graph 2 Percent of Adults with Cell Phones and Smartphones,
Distributed by Age, 2012**

Source: PEW Post-Election Survey, November 14 to December 12, 2012



The CDC research focused on the geographic or regional component of this trend. Other surveys such as the one conducted by the Pew Charitable Trust indicate that a greater percentage of younger adults compared to older cohorts have wireless service. Graph 2 presents the percentage of cell phone users distributed by age. As expected, the youngest cohorts depicted in this graph – 18 to 29 years and 30 to 49 years – have the highest rates of cell phone ownership (with corresponding smart phone ownership).

B. Student Loan Statistics

In the first quarter of 2013, the level of student loan borrowing reached \$986 billion.⁶ Student loan debt increased significantly, almost doubling from half a trillion dollars in 2007 to nearly \$1 trillion today, as depicted in Graph 3. According to a recent study by the New York Federal Reserve, the number of borrowers increased from 24.3 million to 37.5 million (54 percent) and average debt per borrower increased from \$16,000 to \$25,000 (56 percent).⁷

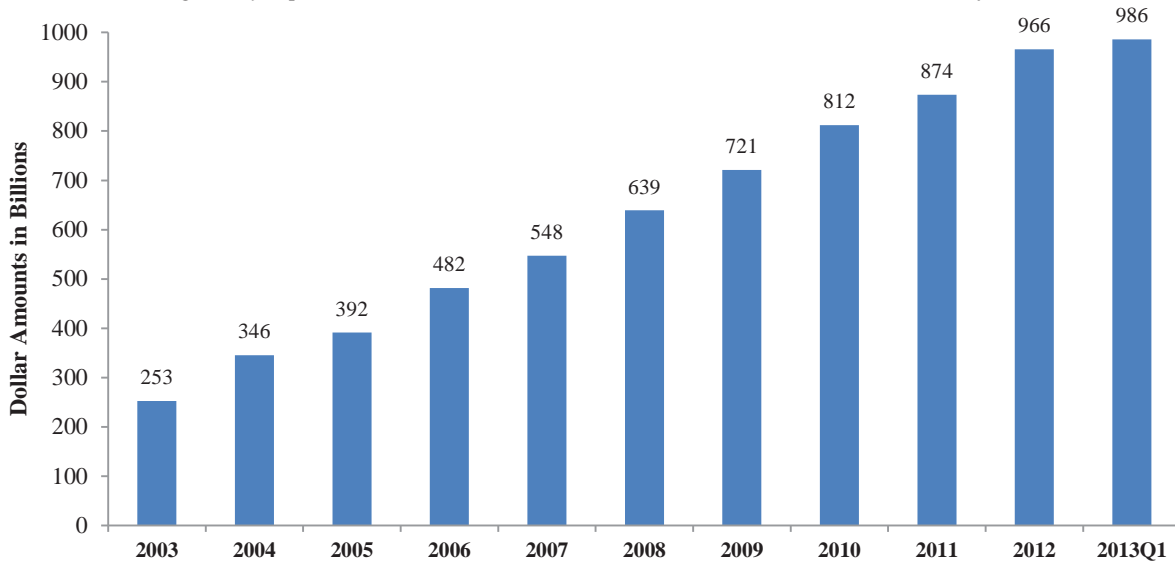
The greater number of borrowers associated with higher debt levels contributed to the increased delinquency and default rates. The most recent statistics from the Department of Education indicate that default rates reached their highest level in fourteen years in 2010 (the most recent year for which statistics are available).

⁶ Refer to the *Quarterly Report on Household Debt and Credit*, Federal Reserve Bank of New York, May 2013.

⁷ Ibid. Overall, 39.1 percent of borrowers in the fourth quarter of 2012 had less than \$10,000 in student debt. The smaller percentages of borrowers with large debt (3.6 percent borrow more than \$100,000) tend to skew the average debt figures.

Graph 3 Total Student Loan Borrowing, 2003 through 2013

Source: *Quarterly Report on Household Debt and Credit*, Federal Reserve Bank of New York, May 2013



Graph 4 displays the two-year cohort default rate for student loans, which reached 9.1 percent in FY 2010, almost double the rate in FY 2005. The two-year cohort default rate is the percentage of borrowers in the cohort who default before the end of the fiscal year following the fiscal year in which the borrowers entered repayment.⁸

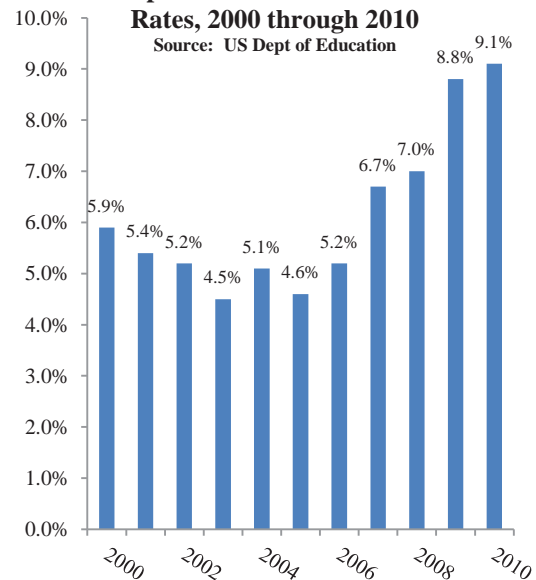
Table 1 presents two- and three-year cohort default rates as well as total defaults by loan program, based on data from the National Student Loan Data System (NSLSD). As shown in the table, the cohort default rate calculation understates the actual number of borrowers that default each year, as it is a snapshot of only those borrowers that enter repayment in a given cohort year. Cohort default rates are misleading for a number of reasons, including:

- borrowers are tracked for just a few years after they go into repayment; and
- certain loans (e.g., PLUS loans) and certain consolidation loans are excluded from the calculations.

In comparison, estimates of the lifetime default rates for subsidized and unsubsidized Stafford loans made in FY 2013 are 23.3 percent and 16.6 percent, respectively.⁹ These rates are consistent with the annual NSLSDs figures that provide a more accurate picture of the magnitude

Graph 4 Student Loan Default Rates, 2000 through 2010

Source: US Dept of Education



⁸ The cohort default period (two-year) is the period that begins on October 1 of the fiscal year when the borrower enters repayment. The cohort default period ends on September 30 of the following fiscal year.

⁹ Refer to Delisle, Jason, *President's Budget Shows Student Loan Defaults Cost Taxpayers*, February 16, 2012.

of defaulted loans by tracking defaults over the life of the loan (and not just over a two- or three-year period).¹⁰

Table 1 – Defaulted Student Loan Statistics			
Year Entering Repayment	Borrowers Entering Repayment	Number Defaulted	Cohort Default Rate
<i>Two-year Cohort Default Rate</i>			
2008	3,378,734	238,852	7.0
2009	3,628,846	320,194	8.8
2010	4,100,778	374,940	9.1
<i>Three-year Cohort Default Rate</i>			
2009	3,629,109	489,040	13.4
<i>NSLDS – Fiscal Year Defaults for FFELP and DL</i>			
Year of Default	FFELP Loan Borrowers	Direct Loan Borrowers	Total Title IV Defaulted Loan Borrowers
2007	556,711	147,089	703,800
2008	702,694	152,771	855,465
2009	751,049	164,973	916,022
2010	772,024	379,776	1,151,800
2011	703,748	618,262	1,322,010
Sources: Department of Education, http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html and special tabulations from the NSLDS, 2013.			

In addition, the default measures do not include borrowers that are current but struggling with overly burdensome debt or those that are delinquent but not yet in default. Researchers at the Federal Reserve Bank of New York (FRBNY) believe that current delinquency rates may actually *understate* the degree to which borrowers are falling behind and the potential for future defaults.¹¹ After recalculating the proportion of borrowers with a past due balance excluding borrowers in deferment or forbearance, the FRBNY researchers find that **27 percent of borrowers have past due balances**. They also find that of the 241 million people in the United States who have a credit report, 37.7 million have outstanding student loan debt.¹²

Approximately 5.9 million borrowers are in default status, with loan balances totaling \$77.4 billion.

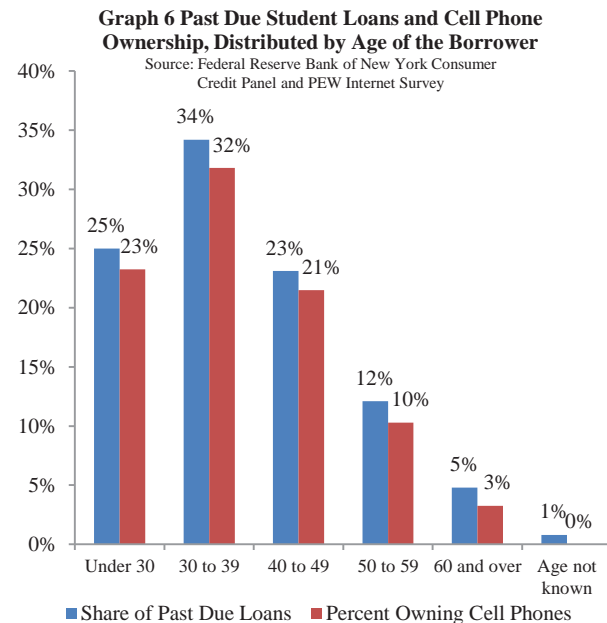
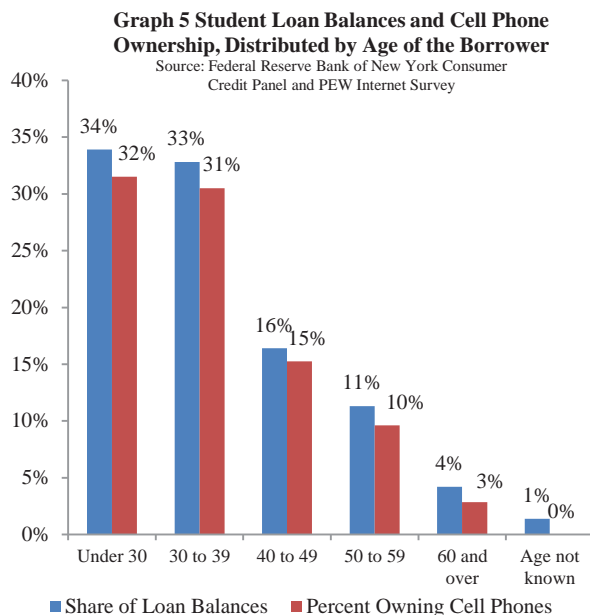
Graphs 5 and 6 display student loan balances and cell phone ownership distributed by age as well as the share of delinquent balances and cell phone ownership distributed by age, respectively. Nearly 83 percent of all student loan debt is held by borrowers age 49 years or younger (refer to

¹⁰ The NSLDS contains records on borrowers who have applied for and received loans under the William D. Ford Federal Direct Loan Program, the Federal Family Education Loan (FFEL) Program, the Federal Insured Student Loan (FISL) Program, and the Federal Perkins Loan Program (including National Defense Student Loans, National Direct Student Loans, Perkins Expanded Lending and Income Contingent Loans). The NSLDS also contains records on recipients of Federal Pell Grants and persons who owe an overpayment on a Federal Pell Grant, Federal Supplemental Educational Opportunity Grant or Federal Perkins Loans.

¹¹ Refer to Dai, Emily, *Student Loan Delinquencies Surge*, Inside the Vault, Federal Reserve Bank of St. Louis, Volume 18, Spring 2013.

¹² Equifax provides data to support the FRBNY Credit Report. Refer to the Federal Reserve Bank of New York, *Household Debt and Credit Conditions, Q1 2013*.

Graph 5). *An estimated 78 percent of these individuals have cell phones and more than half rely solely on wireless devices.*



As shown in Graph 6, approximately 59 percent of delinquent student loan borrowers are 39 years of age or younger and nearly 82 percent are 49 years of age or younger. *An estimated 76 percent of these individuals have cell phones and more than half rely solely on wireless devices.*

C. Increasing Services to Student Loan Borrowers

One problem facing the Department of Education and its agents that service student loans is that, in most cases, *borrowers never speak to their loan servicer before defaulting* or becoming delinquent on those loans. This lack of communication means that borrowers are making decisions that have serious financial consequences with little or no information. For example, many borrowers are unaware of their options, including but not limited to, Income Based Repayment (IBR), Pay As You Earn (PAYE), deferments, forbearance, loan consolidation and, for defaulted borrowers, loan rehabilitation. Only through timely and efficient communication efforts can servicers help student loan borrowers avoid the negative ramifications of delinquency and default.

Forgoing technology to call student borrowers is highly inefficient given that the contact rate for manual calling is very low, sometimes below one percent of all dialed calls. A predictive dialer provides a clear advantage as it dials the telephone numbers and connects answered calls to the loan counselors making calls. Predictive dialers use statistical algorithms to minimize the time that employees spend waiting between conversations while also minimizing the occurrence of someone answering when no agent is available.

When dialing manually – one number at a time – a call center employee may face two potential delays. First, only a fraction of dialed numbers results in an answered call. Predictive dialers are capable of dialing multiple numbers, eliminating the idle time when a phone remains

unanswered. Second, even when a student borrower answers the call, there is a time lapse before the conversation begins. Assuming it takes about 10 seconds for someone to answer a call, and conversations typically last 90 seconds, a predictive dialer might start dialing the next number after 80 seconds (90 minus 10 seconds).

Industry estimates indicate that using predictive dialing reduces by 85 percent these two sources of idle time, allowing servicers to reach a greater number of student loan borrowers. This increased communication will facilitate a greater opportunity to resolve borrower delinquencies and defaults.¹³

Table 2 – Increased Student Loan Borrower Contact Capability		
Average Manual Calls, per month per employee	Average Automated Calls, per month per employee	Percentage Increase
5,604	21,387	281.6%
Source: Industry statistics provided by loan servicers, May 2013		

Industry representatives provided the results of a controlled test shown in Table 2. Servicers applied manual and automated calling systems and found that ***call rates increased by nearly 300 percent when using predictive dialers compared to manual dialing.*** This provides an indication of the greater number of students that could receive timely information if servicers were able to use the available technology without restrictions on wireless phones.

III. ESTIMATED BENEFITS

A. Estimated Impact on Student Borrowers

Modifying the TCPA would ***help 11.9 million borrowers avoid the negative ramifications of default over the next ten years.*** This will provide a number of benefits to borrowers and the economy as a whole because studies indicate that borrowers currently in default status are unable to purchase homes, save for retirement, or, in some case, find employment.¹⁴ The changes would also help to ***remove nearly 7.9 million borrowers from default status over the 10-year budget window,*** by helping them access loan rehabilitation and consolidation programs.

In FY 2014, it is estimated that nearly 1.3 million borrowers will default on their educational debt. Approximately 5.9 million borrowers are currently in default status. (Refer to Appendix B for an illustration showing the number of borrowers in default over the budget period.)¹⁵ Tables 3 and 4 rely on an analysis of the potential ***increase*** in contacts, default cures and collections from allowing the use of technology when contacting borrowers. Table 5 provides an estimate of

¹³ Currently, the Department of Education and Loan Servicers are able to offer a number of options that will improve the delinquent or defaulted borrower's situation including multiple payment options, loan rehabilitation, and administrative resolutions.

¹⁴ Refer to Deruy, Emily, *Debt Creates Long-Term Burdens for Student Borrowers*, ABC News, available on line at http://abcnews.go.com/ABC_Univision/News/debt-creates-long-term-burdens-student-borrowers/story?id=18738574&page=2.

¹⁵ Refer to the American Student Assistance Organization, available online at www.asa.org.

the potential *decrease* in contacts and collections – i.e. the opportunity cost – if there is no action to modify the TCPA. The estimates contained in Tables 3 through 5 rely on the following assumptions over the budget period:

- Use of wireless phones will continue to increase;
- Landline phone service will become less prevalent;
- Student loan borrowing will continue at the current average rate and at the current average borrowing levels;
- Student default and delinquency rates will remain at their current levels; and
- Use of such technology as automated dialing systems will increase the *contact success rate* by 151 percent.¹⁶

Table 3 estimates the number of borrowers who would *avoid default* if servicers could use autodialing systems to call borrower cell phones. Put another way, this estimates the number of borrowers who otherwise cannot be contacted in a timely manner (before default) due to the restrictions on using predictive dialers to contact borrowers on their wireless devices without express prior consent.

Table 3 – Estimated Total Student Loan Borrowers who Avoid Default, After Modifying the TCPA (in millions) (Refer to Appendix B for supporting details)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Students Able to Improve Credit and Avoid Default	0.850	0.930	1.000	1.080	1.150	1.230	1.300	1.380	1.450	1.530
11.9 Million Borrowers Avoid Default										

Table 4 provides the projected number of additional *defaulted* borrowers that could receive assistance following modification of the TCPA. Put another way, these are the borrowers who languish in default – unaware of their options to consolidate or rehabilitate their loans – because they cannot be reached on their wireless devices. The estimates of total borrowers removed from default status rely on the contact success rate derived from loan servicer activity.¹⁷

Table 4 – Estimated Additional Student Loan Borrowers Removed from Default, After Modifying the TCPA (in millions) (Refer to Appendix B for supporting details)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Students Able to Resolve Defaulted Loans	0.385	0.484	0.579	0.671	0.759	0.846	0.930	1.012	1.093	1.173
7.9 Million Loan Resolutions										

¹⁶ The contact success rate incorporates the industry estimates of actual contacts made through the change in calling technology as well as the successful resolution of the contact.

¹⁷ The estimates in this table represent the difference between borrowers reached following a change to the TCPA and those in the “realistic baseline.”

It is important to understand that, in the absence of Congressional action allowing automated dialers to call wireless devices (without prior consent), the ability to collect *all* outstanding Federal obligations will decrease significantly.¹⁸ The trend toward wireless communication as the only phone service means that servicers working for the Federal government will face increasing limitations and reach fewer and fewer borrowers – diminishing their ability to assist borrowers and recover Federal obligations.

Table 5 projects the current trends over the next ten years to demonstrate the critical nature of this problem if Congress fails to act. As wireless devices dominate phone communication, loan resolutions will decrease by approximately 1.7 million over the next ten years. In other words, *1.7 million fewer borrowers will receive services that would enable them to move from default status due to the increasing numbers that migrate to wireless-only devices.*¹⁹ These estimates assume that by the end of the budget period, approximately *80 percent of borrowers will rely solely on wireless devices as their only phone service.*

Table 5 – Estimated Reduction in Loan Resolutions, in the Absence of Legislative Action (in millions) (Refer to Appendix B for supporting details)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Students Unable to Resolve Default Status	0.025	0.066	0.102	0.135	0.166	0.195	0.222	0.248	0.273	0.297
<i>1.7 Million fewer Loan Resolutions</i>										

B. Estimated Financial Impact to the Taxpayer

The human cost of inaction, with millions upon millions of student loan borrowers needlessly defaulting on their loans or continuing to languish in a default status, far outweighs the monetary cost to the taxpayer. That being said, there *are* real tax dollars at stake, and they amount to tens of billions of dollars over the ten-year budget window.

- For example, a conservative estimate of defaults costing 25 cents on the dollar suggests that unnecessary *defaults could cost the taxpayer nearly \$37 billion* over the next ten years.
- Over the next ten years, *if the Congress enacts provisions to modify the TCPA, default collections could increase by \$41.3 billion.* These estimated collections represent amounts collected in excess of what servicers would collect without any change in policy. The estimated additional collections of \$41.3 billion represent a conservative estimate, because it assumes that collections will continue at their current rate, in the absence of action, which is highly unlikely given the growth of wireless-only households.²⁰

¹⁸ While this analysis focuses exclusively on the outstanding student loan obligations, the impact to non-default Federal collections would be even more significant.

¹⁹ The decrease in servicer contacts relies on projections of defaulted student loans during the ten-year budget period, as well as CDC and PEW survey statistics on cell phone use.

²⁰ However, the Treasury Department believes that there will be a significant decline in the collections rate in the absence of servicers using available technology.

- Conversely, the absence of Congressional action allowing auto dialers to call wireless devices (without prior consent) will result in the decreased collection of Federal obligations and the diminished ability to assist borrowers. These estimated opportunity costs assume an annual increase of cell phone usage of approximately 3.7 percent – which reduces the efficacy of loan servicing and collections.²¹ If the Congress fails to act, servicers will be unable to reach and expeditiously resolve approximately **\$26.5 billion in defaulted student loans**.

C. Conclusions

It is important to underscore several points. Accelerating collections through modifying the TCPA will limit the Federal liability associated with the student loan program. Modifying the TCPA will help Federal loan programs retain their integrity through reduced defaults and moving defaulted loans back into repayment. ***This can be accomplished at no cost to the Federal government, according to CBO scoring rules.*** Despite the potential for low present-value estimates of the accelerated payments, these accelerated collections represent an important contribution to the Federal government.²²

The proposed targeted modification to the TCPA creates two clear benefits without negatively affecting any other provision for consumer protection or privacy. First, borrowers are able to obtain services in the format they depend on today – via their mobile devices. Borrowers will receive greater access and timelier information and, therefore, will be better equipped to manage their debts.

Second, the U.S. Departments of Education and Treasury and their agents can more effectively employ limited resources. The Federal government and loan servicers will not be able to continue to increase resources devoted to servicing and collection because ***it is cost-prohibitive if not impossible to meet the demand for services without using technology***. Therefore, as cellular phone adoption continues to increase, there will be a corresponding decrease in contact between servicers and borrowers if the appropriate changes are not made to the TCPA. This means that a significant number of borrowers will not receive the services they need to avoid default and better manage their debt.

²¹ The increased collections rely on a weighted distribution of defaulted loan values to reflect more accurately the borrowers' obligations. The estimated \$41.3 billion collections represent a conservative estimate and may be higher. The analysis relies on a 3.7 percent increase in wireless phone use. In addition, these figures do not consider the potential increased collections that are possible when considering loans and guarantees made by other Federal departments and agencies.

²² Recent analysis from the New America Foundation shows that taxpayers face a net loss rate of (up to) 25 cents on the dollar for defaulted loans. Refer to Delisle, Jason, *President's Budget Shows Student Loan Defaults Cost Taxpayers*, Blog post New America Foundation, Federal Education Budget Project, February 16, 2012.

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APPENDIX A – AGENCY SUPPORT FOR MODIFYING THE TCPA



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE GENERAL COUNSEL

May 21, 2010

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: *Ex Parte Notification* – Rules and Regulations Implementing the Telephone
Consumer Protection Act of 1991 – CG Docket No. 02-278

Dear Ms. Dortch:

On May 20, 2010, Dwight Vigna and Mary Oknich from the Department of Education's (Department's) Federal Student Aid office and Vanessa Burton and Brian Siegel from the Department's Office of the General Counsel met with Julie M. Saulnier and Karen F. Johnson of the Commission's Consumer Policy Division, Consumer and Governmental Affairs Bureau.

We discussed the proposed changes to the Commission's rules governing telephone consumer protection and the impact those changes would have on the Department's ability to collect student loans made under title IV of the Higher Education Act of 1965, as amended. We presented information regarding the proportion of student loan borrowers who use only cellular telephone service and explained why it is important for the Department and its servicers to be able to communicate with those borrowers effectively and the increased costs of communicating with borrowers through other means. We also discussed the significant costs to student loan borrowers and the taxpayers that would result from a rule that could significantly restrict the ability to use autodialers to make telephone calls to borrowers. Finally, we presented options for the Commission's consideration that would allow the Department and its servicers to efficiently collect student loans while protecting the privacy interests of individuals.

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-2110

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation

At the meeting, we provided the Commission with the enclosed written comments and a sample copy of the Master Promissory Note used in the Department's Direct Loan Program.

Sincerely,

A handwritten signature in black ink that reads "Vanessa Burton". The signature is written in a cursive style with a large, stylized "V" and "B".

Vanessa A. Burton

Attorney

Division of Postsecondary Education

Enclosures

1. Department of Education Comments on Proposed Changes to FCC Regulations
2. Master Promissory Note, William D. Ford Federal Direct Loan Program



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: *Comment to Proposed Amendments to the Telephone Consumer Protection Act Regulations, CG Docket No. 02-278*

Dear Ms. Dortch,

As requested at the meeting on May 10, 2010, the Financial Management Service (FMS) submits this comment in response to the Federal Communication Commission's (FCC) notice of proposed rulemaking (NPRM) to amend its regulations implementing the Telephone Consumer Protection Act.¹ Thank you for your consideration of our comments and for taking the time to meet with us. The NPRM proposes to apply further restrictions on the use of autodialers, namely a requirement that written consent be obtained by the called party. These restrictions could have a significant impact on federal debt collection.

For the reasons explained below, FMS urges the FCC to revise the NPRM to create an exception for the use of autodialers when collecting a delinquent debt. In the alternative, FMS encourages the FCC to clarify that such restrictions would not apply to the collection of federal debts.

The Federal Debt Collection Program

FMS is the bureau within the U.S. Department of the Treasury that is responsible for carrying out the federal governmentwide debt collection program. Under the Debt Collection Improvement Act of 1996 (DCIA), federal agencies are generally required to transfer nontax debts over 180 days delinquent to FMS for collection. The DCIA further requires that FMS maintain a schedule of private collection contractors eligible for referral of debts. One of the purposes of the DCIA is "[t]o rely on the experience and expertise of private sector professionals to provide debt collection services to federal agencies." See 31 U.S.C. § 3711, note.

¹ On May 10, 2010, FMS staff met with the following individuals from the FCC to discuss the implications of the NPRM: Mark Stone, Deputy Chief of the Consumer & Governmental Affairs Bureau; Colleen Heitkamp, Chief of the Consumer Policy Division, Consumer & Governmental Affairs Bureau; and Julie Saulnier, Deputy Chief, Consumer Policy Division, Consumer & Governmental Affairs Bureau.

Pursuant to the DCIA, FMS has contracted with five private collection contractors to collect debts owed to federal agencies. These private collection contractors are an integral part of our debt collection program. In addition to referrals from FMS, both U.S. Department of Education and the U.S. Department of Health and Human Services separately refer delinquent debts to private collection contractors. Each year, billions of dollars of delinquent debt are referred to these private collection contractors. As the federal government's debt collection program has matured, collection rates have improved, a trend we expect to continue.

Autodialer Restrictions Should Not Apply To Debt Collectors

FMS believes that the restrictions on the use of autodialers should not apply to debt collection calls for three compelling reasons. First, debt collection is inherently different than telemarketing, as it is based on the collection of legitimate debts owed by individuals and other entities with a preexisting obligation to pay. Debt collectors are not using autodialers to cold call potential customers, but are instead using autodialers to contact individuals who have an existing relationship or indebtedness.

Second, debt collectors are already subject to numerous federal and state consumer protection laws, such as the Fair Debt Collection Practices Act (FDCPA) and the Fair Credit Reporting Act (FCRA), that prevent abusive use of all debt collection practices, including potential misuse of autodialers.

Third, by reducing the potential for human error, autodialers assist with collectors' compliance with consumer protection laws and sound debt collection practices. For example, autodialers can be programmed to call certain area codes only within certain prescribed time periods, so as to avoid collection calls at times prohibited by the FDCPA. Furthermore, autodialers are more precise than human dialing, decreasing the possibility of misdialing.

Use of Autodialers Should be Permitted When Collecting Debts Owed to the U.S., Because Additional Protections Are in Place and the Prohibition Would Decrease Collections Revenue

In the event that the FCC disagrees with FMS's position that debt collectors be permitted to use autodialer technology, FMS requests that the FCC revise the NPRM to clarify that the proposed restrictions on the use of autodialers would not apply to any debt collectors when they are collecting debts on behalf of the United States. This exemption is appropriate because there are mechanisms in place to protect against potential abuses associated with the use of autodialers. Additionally, the loss of efficiencies provided by autodialers would significantly decrease the amount of debt recovered by the United States.

As discussed above, private collection contractors are bound by applicable federal and state law governing debt collection. Furthermore, pursuant to 31 U.S.C. § 3718(a), which governs the use of private collection contractors by federal agencies, federal agencies are

required to maintain ultimate control over debts referred to private collection contractors, including the authority to resolve disputes, compromise claims, and terminate collection action. FMS closely oversees its private collection contractors to ensure that they are compliant with applicable laws as well as the terms of their contracts with FMS. FMS has dedicated personnel to monitor its private collection contractors and to examine any alleged misbehavior. FMS takes this role very seriously and awards contracts only to private collection contractors who have demonstrated a responsible record of debt collection. Moreover, FMS maintains the right to terminate a contract if the private collection contractor does not live up to these standards. FMS is confident that our oversight of our private collection contractors, combined with preexisting federal and state law, will provide the public with sufficient protections to allow for this limited exemption.

Autodialers are critical to the success of our efforts to recover the maximum amount of delinquent debt on behalf of U.S. taxpayers. Making contact with debtors is a relatively inexpensive yet extremely effective way to obtain voluntary payment of delinquent debts. Without the use of such technology, we believe that we will see a significant drop in our collection rate.

Conclusion

As discussed above, the restrictions proposed by the NPRM could have a substantial, negative impact on federal debt collection. We therefore urge the FCC to revise the NPRM to exclude debt collectors from the general restrictions on the use of autodialers or, in the alternative, clarify that such restrictions would not apply when collecting federal debts. Please do not hesitate to contact Richard Burnham, Director, Private Collection Division at 202-874-8700 if you would like any information in addition to this comment.

Sincerely,



Scott H. Johnson
Assistant Commissioner
Debt Management Services
Financial Management Service
U.S. Department of the Treasury

APPENDIX B – TECHNICAL DETAILS SUPPORTING ESTIMATES

The analysis characterizes the business activities of loan servicers, rather than the official budget scoring of changes to the TCPA. The official scoring rules create artificially low cost estimates of legislative changes, even if the provision increases cash flow to the Federal government. For a more detailed discussion of scoring rules for student loans, refer to the companion document titled Student Loan Scoring Conventions.

By law, the Congressional Budget Office must score loan provisions using present value analysis. The Federal Credit Reform Act requires the cost analysis to recognize all costs attributable to the credit program, accounting for the following costs:

- Original outlay;
- Direct-loan repayments;
- Effects of below-market interest rates;
- Estimated delinquent repayments;
- Fees and penalties paid on the loan; and
- Loan defaults.

Two assumptions used in CBO scoring create difficulties when evaluating changes to the original cost estimates – current historically low interest rates (increases the value of future collections) and low default rate assumptions. Together, these two assumptions tend to understate the cash flow of defaulted loan collections.

To make clear the difficulties facing loan servicers of not being able to use available technology to reach their customers, this analysis depicts the business activities of loan servicers and the collection process. The data used to estimate this business activity is from (1) publicly available sources noted below and (2) industry data and statistics on automated dialing systems.

The estimates rely on two fundamental steps: (1) calculating the reduction in students serviced due to increasing cell phone usage and (2) estimating the reduction in student loans dollars collected from reduced contacts.²³ Each of these calculations relies on several data sources, as well as industry data, detailed below.

1. Reduction in the Number of Student Contacts –

- Collected data on the growth in cell phone usage from 2000 to 2012, using CTIA data²⁴;
- Imputed annual figures for the years for which there was no data (smoothing calculation);

²³ These descriptions are characteristic of the other calculations that depict the estimated increase in contacts. They rely on consistent assumptions and the same underlying data.

²⁴ CTIA-The Wireless Association, data on the growth of wireless subscriptions, available at <http://www.ctia.org/advocacy/research/index.cfm/AID/10388> (accessed May and June 2013).

- Projected the growth in future years, based on historical figures assuming that currently 45 percent of borrowers had cell phones as primary phone contact (Note, the analysis uses the most conservative calculation – the final growth rate for the most recent years, 3.75 percent per year);
- Estimated the baseline of student borrowers in the contact pool, using Department of Education figures (total 5.9 million borrowers in default and additional borrowers of approximately 1.3 million each year), and created a cohort analysis of students entering and exiting this pool. The cohort figures rely on conservative estimates of annual growth in new loan volume and do not consider the rapid growth rate of new loan volume, which has been growing at a rate of 13.7 percent annually (compounded).²⁵
- Estimated the stream of borrowers entering and exiting default, after applying the increased rates of cell phone use; and
- Calculated the change in borrowers (reduced stream minus the baseline calculation).

2. Reduction in Student Loan Dollars Collected from Reduced Contacts –

- The dollar estimates incorporate two trends in student loan borrowing observed in the data sources. First, the data indicate that the number of borrowers is increasing. Second, while average debt levels remain stable, they vary across categories of student borrowers in the aggregate population. To reflect these trends, the dollar estimates represent the change in the numbers of borrowers multiplied by the average student loan debt, across various classes of borrowers. In other words, the analysis attempted to reflect the average balances as they vary across the distribution of borrowers.²⁶
- Multiplied the number of borrowers by the weighted distribution loan amounts calculated above.

Using conservative growth rates, the analysis assumes that nearly 80 percent of borrowers in the pool would have cell phones as the primary telephone contact by 2023.

²⁵ Refer to Brown, Meta, Andrew Haughwout, Donghoon Lee, Maricar Mabutas, and Wilbert van der Klaauw, *Grading Student Loans*, Liberty Street Economics, Federal Reserve Bank of New York, March 5, 2012 and Edmiston, Kelley, Lara Brooks and Steven Shepelwich, *Student Loans: Overview and Issues (Update)*, Federal Reserve Bank of Kansas City, April, 2013 (Revised).

²⁶ The FRBNY data suggest that the median borrower holding student loan debt in the fourth quarter of 2012 owed \$13,924 in student loan debt. The average amount of student loan debt across all consumers with student loan debt was \$24,699. About 3.1 percent of borrowers has student loan debt above \$100,000, while 0.5 percent has debt over \$200,000. Approximately 25 percent of borrowers held more than \$29,846 in student loan debt, while another 25 percent held less than \$6,003 in student loan debt. (*Ibid.*)

The following table depicts the cohort analysis used to project the savings derived through increased borrower contacts. Table 6 provides the aggregate analysis of borrowers entering and exiting default, under various scenarios. The estimates for the reduction in contacts relies on the difference between the number of borrowers exiting default in the absence of legislative action and the baseline number of borrowers exiting default ((3) borrowers exiting default minus (2) borrowers exiting default).

Table 6 – Estimated Number of Student Loan Borrowers in Default (In thousands)											
Borrower Status	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Baseline Borrowers											
BOY, in Default	5,900	6,814	7,737	8,670	9,613	10,566	11,528	12,500	13,482	14,474	15,476
Entering Default	1,322	1,342	1,362	1,382	1,403	1,424	1,446	1,467	1,489	1,512	1,534
(1) Exiting Default	-408	-418	-429	-440	-451	-462	-473	-485	-497	-510	-523
EOY, in Default	6,814	7,737	8,670	9,613	10,566	11,528	12,500	13,482	14,474	15,476	16,487
Realistic Baseline											
BOY, in Default	5,900	6,814	7,762	8,761	9,806	10,894	12,022	13,189	14,393	15,633	16,907
Entering Default	1,322	1,342	1,362	1,382	1,403	1,424	1,446	1,467	1,489	1,512	1,534
(2) Exiting Default	-408	-393	-363	-338	-315	-296	-279	-263	-250	-237	-226
EOY, in Default	6,814	7,762	8,761	9,806	10,894	12,022	13,189	14,393	15,633	16,907	18,216
Increase in Borrowers Exiting Default, after Modifying the TCPA											
BOY, in Default	5,900	6,513	7,116	7,713	8,308	8,908	9,521	10,153	10,816	11,520	12,281
Entering Default	1,322	1,342	1,362	1,382	1,403	1,424	1,446	1,467	1,489	1,512	1,534
(3) Exiting Default	-709	-739	-765	-787	-803	-812	-813	-805	-784	-751	-700
EOY, in Default	6,513	7,116	7,713	8,308	8,908	9,521	10,153	10,816	11,520	12,281	13,116
Estimated growth in borrowers entering default is 2.5 percent. Estimated growth in borrowers exiting default relies on industry data for the rate of increased contacts and the corresponding resolution rate. Details may not add due to rounding.											

- (1) Represents number of borrowers (in thousands) that resolve their defaults if no change is made to the TCPA and there is no further growth in the percentage of households that are wireless only.
- (2) Represents number of borrowers (in thousands) that resolve their defaults if no change is made to the TCPA and the growth of wireless-only households follows current trends.
- (3) Represents number of borrowers (in thousands) that resolve their defaults if the proposed changes are made to the TCPA that allow the Federal government and its agents and contractors to use predictive dialer technology to reach student loan borrowers on their wireless devices.

The following table depicts the cohort analysis used to project the number of delinquent borrowers who are able to avoid default, following increased borrower contacts. Table 7 provides the aggregate analysis of delinquent borrowers over the budget period, after modifying the TCPA.

Table 7 – Estimated Number of Delinquent Borrowers, after Modifying the TCPA (In thousands)											
Borrower Status	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Borrowers who Avoid Default, after Modifying the TCPA											
BOY Delinquent Borrowers	5,400	5,705	5,996	6,269	6,522	6,748	6,945	7,106	7,223	7,289	7,293
Borrowers Becoming Delinquent	1,080	1,141	1,199	1,254	1,304	1,350	1,389	1,421	1,445	1,458	1,459
Borrowers Avoiding Default	-775	-850	-926	-1,002	-1,077	-1,153	-1,228	-1,304	-1,379	-1,454	-1,528
EOY Delinquent Borrowers	5,705	5,996	6,269	6,522	6,748	6,945	7,106	7,223	7,289	7,293	7,224
Estimated growth in borrowers who avoid default relies on industry data for the rate of increased contacts and the corresponding resolution rate. Details may not add due to rounding.											